LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.30 P.M. ON THURSDAY, 28 NOVEMBER 2019

COMMITTEE ROOM ONE - TOWN HALL MULBERRY PLACE

Members Present:

Councillor Kyrsten Perry (Chair)
Councillor Rachel Blake (Vice-Chair)
Councillor Mohammed Ahbab Hossain
Councillor Eve McQuillan
Councillor Ayas Miah
Councillor Abdal Ullah
Councillor Andrew Wood

Apologies:

John Jones – Chair of Pension Board

Kehinde Akintunde – GMB Union Representative

Others Present:

Colin Robertson	Independent Advisor
Hemal Popat	Mercers
Jack Bladon	Schroders
Pedro Moura	Schroders
Steve Turner	Mercers

Officers Present:

David Knight	Principle Committee Services Officer
Kevin Bartle	Interim Divisional Director Finance Procurement & Audit
Miriam Adams	Interim Pension & Investment Manager
Neville Murton	Acting Corporate Director of Resources
Ngozi Adedeji	Team Leader Housing – Legal Services
Rushena Miah	Committee Services Officer

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Declarations of pecuniary interest were made by Ngozi Adedeji (Team Leader Housing –Legal Services) and Neville Murton (Acting Corporate Director of Resources) with regards to item number 9.2 Annual Allowance and the treatment of individual pension tax charges.

2. MINUTES OF THE MEETING HELD ON 24TH SEPTEMBER, 2019

Councillor Blake raised a point of accuracy with regard to the minute 6.3 'Increased Allocation to Low Carbon Equities'. She said the first and second bullet point on page 14 of the agenda pack should be reworded to summarise that a discussion took place on the de-carbonisation approach and that the approach outlined was only one view of a consultant. A decision had not been made on an exclusionary approach. It was agreed that the minute should be redrafted to provide the following information: what was the approach? What was the view of the consultants? And what was agreed at the meeting? Miriam Adams (Interim Pension & Investment Manager) and Kevin Bartle (Interim Divisional Director Finance Procurement & Audit) agreed to draft a paragraph to correct the minute and share with the Chair for approval.

RESOLVED:

1. The minutes of the meeting held on 24 September 2019 we approved as an accurate record subject to the above amendment.

3. PETITIONS

None.

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

A report was tabled from John Jones Chair of the Pensions Board. The note highlighted the key issues that had been considered by the Board at its meeting on 25 November 2019.

RESOLVED:

1. To note the Chair of Pensions Board report.

5. REPORTS FOR CONSIDERATION

5.1 Equity Protection - Presentation and Training

The Committee received an update from Jack Bladon and Pedro Moura (representatives from Schroders) on the funds equity protection. A presentation booklet was tabled at the meeting.

Following the presentation, a discussion took place on how the equity protection product had affected the fund. Consultants from Schroders explained that the product had fulfilled its objective and by ‘forgoing the upside’ the fund had been protected from significant loses. It was noted that March 2020 was the end of the protection period. After this date the Committee would have to make a decision on whether it wanted to return to its previous higher risk situation, maintain, or continue with another equity protection product. It was noted the Committee’s independent advisors would be consulted for advice.

Members wanted to know the deadline for decision making on the extension of equity protection. Officers said there would be an extraordinary meeting in February to discuss the topic in depth. Committee Services would find a suitable date in February for Members.

Officers reminded the Committee that equity protection was agreed eighteen months ago based on valuations at the time. They said there had always been an intention to re-evaluate the decision with further discussion on options near the end of the product.

Members asked if there were any trends in the global market that could be detrimental to the pension fund in the next few years. Advisors said they did not expect a recession in the next ten years but there were risks in the global market around trade wars. They said equity protection would mean the Committee could worry less about risk.

It was noted that Schroders had launched a new fossil fuel free product. Schroders said they would be happy to come back to talk about the product.

The Committee received a presentation from Hemal Popat (Mercers) and Steve Turner (Mercers) on equity protection.

Following the presentation:

Members asked about the risks around diversification. Mercers representatives said it depended on the product and the proportion of equities being utilised. The independent advisor explained that in the past equities were usually diversified into bonds, however this was no longer common practice and bonds were at a 300 year low yield. The pay out from diversification was an attractive option but would have to be carefully considered.

A Member asked how other London boroughs had reacted to renewing their protection. Mercers representatives said it was a mix. Some clients had reported they would accept the risk of not continuing with protection, whilst others decided to roll over their protection and produced a dynamic risk strategy.

It was noted on average the private sector held 20% equities and the public sector held 50% equities. Private sector funds tended to pay out dividends whereas public funds tended to grow equites. Private funds were inclined to smooth out their profits in favour of greater protection and they generally had more complex strategies. Conversely, LGPS budgets were tight and councils allocated more money into public services rather than the pension fund.

Members requested a view on whether it was prudent to carry on with the fund’s equity protection. Mercers representatives said the pricing had changed from when the protection was first introduced so the Committee would have to make a decision on whether the protection was value for money.

Members asked if there were any developments in the market in the last two years that would warrant continuing with an equity protection product. Mercers representatives summarised that the economy was in the late stage of an economic recovery, equity was higher but GDP had tailed off. They advised that markets were likely to muddle through with low single digits. A crash was not expected. However, they warned that if there was a crash the fund would suffer.

Mercers representatives said one reason for not requiring protection was that the fund had gone through a valuation which had determined protection was unnecessary until review at the next valuation period in 2022.

It was clarified that the table on slide 14 page 31 of the pack was taking an investment view.

There was a discussion around cashflow. A Member pointed out that the fund was cashflow positive for the next two years and queried whether there would be an actual loss (other than dividends), if markets were to fall by 20% but were predicted to recover within six years. The independent advisor said this was an interesting point but cashflow was a bit of a ‘red herring’.

It was agreed that Mercers would bring to the February meeting a list of options for the Committee to consider.

It was noted that the fund already had a product with Schroders that could be rolled over as one option for consideration.

RESOLVED:

1. For Committee Services to set a Pension Committee date for February 2020.
2. Hemal Popat-Mercers to provide the Committee with a range of views for consideration at the February 2020 meeting.
3. Members to receive all meeting papers one week in advance of the February meeting and contact Mercers/pension officers if they had pre-meeting questions.

5.2 Quarterly Voting and Engagement Update for September 2019

RESOLVED:

1. The Committee noted the report on Quarterly Voting and Engagement September 2019.

5.3 Report on Fund Liquidity

The Committee received the report of Miriam Adams (Interim Pension & Investment Manager) on Fund Liquidity.

The Committee agreed to sell Bailey Gifford in order to balance the fund’s risk portfolio. The Committee instructed the Corporate Director of Finance to contact the London CIV on its behalf to initiate the process.

There was a suggestion that the fund could benefit in the longer term if it paid out dividends. Officers were asked to contact the LCIV to find out if there was an option to pay out dividends.

The Committee agreed that the cashflow appendix on page 97 of the pack was useful and requested the document be presented to the Committee on an annual basis, including figures on income received.

ACTIONS:

1. Senior officers to contact the London CIV to find out if the fund could pay out dividends.
2. Senior officers to add Pension Fund Cash Flow Forecast to the committee forward plan to be reviewed on an annual basis.

RESOLVED:

1. To note the estimated cash flow deficit of £13m from operational activities (Appendix A).
2. Approve the recall of £2m dividend and rental from Schroders into the LBTH Pension Fund bank account to help meet the cost of in-year liabilities.
3. To approve the sale of Ballie Gifford equity investments £11m.

5.4 Pensions Administration Quarterly update- Quarter End September 2019

The Committee received the report of Miriam Adams (Interim Pension & Investment Manager), on the Pension Administration Quarterly Update – quarter ending September 2019.

The Committee **RESOLVED** to:

1. Note the contents of the report.
2. Note the identified regulatory breaches to be reported to the Pension Regulator.
3. Agreed to report the regulatory breaches to the Pensions Regulator
4. Note that a detailed remediation plan which has the deadlines for all actions, owners and up to date status will be provided to the Board in February 2020.

5.5 The Investment Consultancy and Fiduciary Management Market Investigation Order 2019

The Committee received the report of Neville Murton (Interim Corporate Director of Resources) and Miriam Adams (Interim Pension & Investment Manager), on the Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

The Committee **RESOLVED:**

1. To note the contents of the report.
2. Consider the example investment consultant objectives
3. Note the legal requirement for trustees of occupational pensions (including the LGPS) to set objectives comes into effect from 10 December 2019
4. To consider the draft strategic objectives in relation to the provision of Investment Consultancy and Fiduciary Management Market Investigation Order 2019.
5. To delegate to the Director of Resources/Section 151 Officer further to consultation with the Pension Committee Chair and Vice-Chair, the authority to agree final strategic objectives.

6. TRAINING EVENTS

It was noted that a training needs assessment template had been circulated to Members. Members were encouraged by the Chair to complete the form and return to Miriam Adams (Interim Pension & Investment Manager).

RESOLVED:

1. To send completed training needs form to Miriam Adams (Interim Pension & Investment Manager).

7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil items

7.1 Investment and Fund Managers Performance Review for Quarter End September 2019

The Committee noted the report of Neville Murton (Interim Corporate Director of Resources) and Miriam Adams (Interim Pension & Investment Manager), on the Investment and Fund Managers Performance Review for Quarter Ending September 2019.

The Independent Advisor highlighted key points from his quarterly commentary. These included:

- That equity markets have gone up by 23% (S&P 500) and 27% (Nasdaq) so although equity markets were vulnerable, the same could be said of other asset classes, such as bond markets, which appeared even less attractive.
- That the funds equity weighting should be no greater than the strategic equity benchmark, funds with a cash plus return target, such as diversified growth funds, could provide a suitable home until other asset classes became more attractive.
- Infrastructure was recommended as an asset class to invest in without delay.
- Baillie Gifford had performed poorly in the quarter and was underperforming by its benchmark by 1.5% over the last year. This could be attributed to Ballie Giffords philosophy for managing the fund, which focuses on longer term themes such as technology, resulting in greater growth stocks rather than value stocks. After a period of waiting it out high returns could be possible as had been the case on previous occasions.
- LCIV did not offer a ‘value’ fund. The LCIV Sustainable Equity Fund had some similarities with the Ballie Gifford equity fund.
- The LCIV appeared to be in crisis and was facing difficulties retaining or attracting management staff. The chief investment officer had resigned within weeks of joining the CIV and one of two senior managers was due to depart at the end of 2019. There were also concerns about the quality of monitoring reports which showed a limited ability in being able to look beyond what was being told by managers.

The Committee expressed concern at the news that the LCIV was experiencing a management crisis. The independent advisor advised against any new ventures with the LCIV until their management issues had been resolved.

The Chair notified that committee that she was involved in a project with Councillor Mark Engleby at Lewisham Council to form a coalition of councils interested in a green product. She said the LCIV had verbally indicated they would be able start research into the work soon. However, given the news about their management issues, she was hesitant to proceed.

It was advised that the Chair should write to the LCIV for a formal response to the suggestion to start a green fund. The Chair and Senior Officers agreed to draft the letter.

ACTION:

1. The for Chair and Senior Officers to write to the Chair of the LCIV informing them a group of councils are interested in a green fund, feasibility and a request for options to be presented to the Committee in the next year.

The Committee **RESOLVED** to**:**

1. Note the content of the report.
2. Note the independent advisors quarterly commentary report.
3. Note the PIRC reports
4. Note the detailed fund performance by Mercer

8. EXCLUSION OF THE PRESS AND PUBLIC

In view of the contents of items 7.1 and 7.2 on the agenda the Committee agreed to adopt the following motion:

“That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

EXEMPT/CONFIDENTIAL SECTION (Pink Papers)

The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please hand them to the Committee Officer present.

9.1 EXEMPT/ CONFIDENTIAL MINUTES

There were not exempt minutes to review at this meeting.

9.2 Report on the Annual Allowance and the treatment of individual pension tax charges

Neville Murton (Acting Corporate Director of Resources) and Ngozi Adedeji (Housing Team Leader – Legal Services) declared a pecuniary interest and left the room to omit themselves from the discussion.

The Committee received the report of Kevin Bartle (Interim Divisional Director Finance Procurement & Audit) on Annual Allowance and the treatment of individual pension tax charges.

Interim officers explained that they had discovered a significant and unprecedented backlog of record management in the pension administration team that had resulted in a breach of regulation. Upon discovery of the discrepancies officers sought the advice of Hyman Robertson independent actuary for remediation advice.

Preliminary investigation had found that accurate record keeping had not been maintained in order to produce the Annual Benefit Statement for active and inactive employees, even though this was a statutory requirement. Consequently this had resulted in tax discrepancies owed to HMRC.

In addition to this the pension team had not sent out Annual Allowance Statements to average earners with long service and the work had not been conducted for at least two years. Other areas of concern included a lack of policy and procedure documents, data quality issues, lack of receipts against records and 980 employees had not received refunds.

Officers assured the Committee that the breaches were due to a lack of staff resources, training and development, not dishonesty.

It was noted that the Pension Regulator would be notified of the breaches in regulation including the backlog in recording individual pension tax charges.

It was noted that Miriam Adams (Interim Pension & Investment Manager) had been tasked with producing a remediation plan. She said the pension team required training and development in pension administration, training on how to effectively use the pension system and that online self-service for some elements of record keeping was required to alleviate pressure on the team.

Members asked why the Pension Board had not reported this issue to the Pension Committee. The Interim Divisional Director of Finance and Resources said the Chair of the Pension Board, John Jones, had reported to him that he had raised concerns about pension administration and resourcing, however his concerns had not been picked up until the Interim Officers had come into post and had conducted a planning exercise.

There was a discussion on whether pension administration should be outsourced to a specialist pension administration service. Officers said this was something the Committee could consider however, there was no guarantee an outsourced service would be any better and that the main issue in the pension team was a lack of resources and strong leadership, which could be rectified.

There was a discussion on individual pension tax charges. Officers explained that as of 2014/15 the government had reduced the threshold figure from around £250k to £40k. This had resulted in a significant number of high earning staff from the corporate management level up to the chief officer level with outstanding tax charges of around £30,000.

There was a discussion on the options available to the Committee to pay the tax to HMRC. Officers advised that the Committee should adopt the 'Voluntary Scheme' and introduce a policy document on the scheme.

The Voluntary Scheme was when the pension fund paid the tax charge to HMRC on behalf of the employee and recouped the cost when the employee retired. It was advised the Committee adopt the Voluntary Scheme as a matter of urgency because there was a risk of significant losses for those affected, or fines.

The Committee unanimously agreed to adopt a Voluntary Scheme and draft a policy document for adoption by the council. Officers had prepared a draft policy statement for Member comment. Members agreed to adopt the draft policy on an interim basis to be reviewed in six months.

The policy statement would provide the following advice:

1. **Scenario**: An individual meets the 'mandatory scheme pays' criteria but due to an administrative oversight (e.g. failure to provide the required pension savings statement) on the part of the Fund was unable to make their election within the required timescale – **policy**: in line with the approach taken by other LGPS Funds such as an election would be accepted by the Fund.
2. **Scenario**: Individual's tax charge in respect of LGPS is less than £2000. **Policy** – the fund will not accept such an election.
3. **Scenario**: Individual makes a valid 'mandatory scheme pays' election in respect of LGPS, but has a tax charge relating to another pension arrangement which they are requesting the Fund to meet on their behalf. **Policy** – The Fund will not accept such an election.
4. **Scenario**: An individual meets the 'mandatory scheme pays' criteria but due to their own oversight (i.e. not and administrative oversight on the part of the Fund) fails to make their election within the required timescale. **Policy** – The Fund will not accept such an election.

The Committee rejected the following statement - '**Scenario**: individual subject to the tapered annual allowance and has a tax charge of £2000 or more relating to their total pension growth in the Fund. **Policy** – in line with the approach taken by other LGPS Funds such an election would be accepted by the Fund'.

RESOLVED:

1. For Kevin Bartle (Interim Divisional Director Finance Procurement & Audit) to continue to lead the investigation into pension breaches and to produce a remediation plan.
2. To adopt a Voluntary Scheme Pay solution.
3. For Kevin Bartle (Interim Divisional Director Finance Procurement & Audit) to consult the Pensions Regulator regarding breaches in pension administration.
4. For the Chair and Kevin Bartle (Interim Divisional Director Finance Procurement & Audit) to report the individual pension tax issue to Internal Audit Committee.
5. To note the report and Hyman Robertson's paper.

The meeting ended at 9.30 p.m.

Chair, Councillor Kyrsten Perry
Pensions Committee